

STATE OF WASHINGTON

SECOND REPORT

OF

Washington State Liquor Control
Board



January 1 to September 30

1935

OLYMPIA
STATE PRINTING PLANT
1936

**DEFENDANT'S
EXHIBIT**

CASE
NO. C04-0360P

EXHIBIT
NO. 412

TX412-001

LETTER OF TRANSMITTAL

April 10, 1936.

To His Excellency, Clarence D. Martin, Governor
State of Washington, Olympia, Wash.

Sir: The Washington State Liquor Control Board submits herewith its report of operations for the period January 1 to September 30, 1935, as required by the Washington State Liquor Act.

Respectfully,

L. E. GREGORY, Chairman,
W. J. LINDBERG, Member,
HENRY GREGERSON, Member.

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WASHINGTON STATE LIQUOR CONTROL BOARD

Report of Operations

JANUARY 1 TO SEPTEMBER 30, 1935

Reference to First Report

The first report of the Washington State Liquor Control Board described in considerable detail the organization, establishment, and operation of the various functions and duties of the Board. This, the second report, covers the operations of the Board during the second fiscal period from January 1st to September 30th, 1935, and briefly details the refinements and changes that have been made; it should be considered as a continuation of the first report.

Change in Fiscal Period

Upon recommendation of the Board the fiscal period was changed to end on September 30th rather than on December 31st. This change resulted in the period under consideration being shortened to nine rather than twelve months. Because the law making this change was passed after the beginning of the period, it has been necessary to set up certain adjustments and reserves. These facts should be taken into consideration in drawing any conclusions from the data contained herein.

Excerpts from the Board's Minute Book

In order that an idea may be gained as to the chronological order of the principal actions of the Board, there are submitted herewith a few excerpts from the Board's minute book for the year 1935:

January 8: Board adopted a plan to provide for development of wineries making wines from Washington products, to be authorized by Legislature.

Board approved establishment of an office for inspectors in Public Safety Building, Tacoma.

January 17: After conferences with Mr. Peter Giambanco, Acting Manager, Coast Wineries, Board decided to carry their lines in all stores for several months in sufficient quantities to test the demand.

January 29: Board signed notes dated January 30, 1935, First National Bank, with interest at 1½% per annum, in amount of \$150,000.00. This transaction retires loan of \$150,000.00 dated December 31, 1934, for 30 days, with interest at 1½% per annum; interest on same paid in the amount of \$187.50.

February 4: Board by unanimous vote amended Section 9 of the Rules and Regulations of brewers and beer wholesalers to read as follows:

"(9) No manufacturer, distributor or beer wholesaler, nor any representative thereof, shall aid or assist any retail licensee by gifts, loans of money, or property of any description or services of any nature or other things of substantial or nominal value or by giving of premiums or rebates, or by 'treating'; and it shall be unlawful for any retail licensee to accept same."

February 18: For the purpose of safeguarding the issuance of permits to minors by vendors in various stores, it was determined by the Board that a form of affidavit be prepared for execution by doubtful persons thought to be minors, stating that they are of lawful age. It was further determined by the Board that the vendors and assistant vendors in various stores

be authorized to administer oaths upon execution of such affidavits. A record of such affidavits shall be kept and sent to the Olympia office.

February 22: Board received a request from Senate Liquor Control Committee requesting the Board to submit to it what the Board believed to be the best form of legislation for accomplishing the sale of liquor by the drink.

February 25: Board met with Senate Liquor Control Committee and submitted to the committee its attitude on the proposition of sale of liquor by the drink and presented a form of legislation which it deemed best to provide in the event of any such plan receiving approval of the Legislature.

February 26: Board received a copy of State Auditor's report on the operations of the Washington State Liquor Control Board for 1934, which was submitted by him to the Senate and House.

March 11: Board signed lease for Stacy-Lander warehouse with the Port of Seattle, for five years beginning March 15, 1935, and ending March 14, 1940.

March 15: Board by unanimous vote decided that hereafter, unless otherwise provided by specific order of the Board, all licensees or applicants for renewal of licenses whose applications or licenses have been denied, suspended or cancelled shall have ten calendar days from the date of such denial, suspension or cancellation within which to terminate their liquor operations.

March 18: As the Governor this day approved Senate Bill 353 providing for the Liquor Board profits to be divided equally between the general fund of the state and the cities and counties, the Board this day authorized the preparation of checks aggregating \$400,000.00 as the first allocation of funds.

Board signed notes dated March 18, 1935, First National Bank, Olympia Branch, in amount of \$300,000.00 with interest at 1½%. This transaction retires loan of \$300,000.00 dated December 18, 1934, for 90 days with interest at 1½%; interest on same paid in amount of \$1125.00.

March 25: Board signed notes dated March 22, 1935, National Bank of Commerce, in amount of \$200,000.00 with interest at 1½%. This transaction retires loan of \$200,000.00 dated December 22, 1934. Board paid note No. 22, amount \$100,000.00 with interest on same of \$387.50.

Agency closed at La Center because of insufficient business, effective March 20, 1935.

March 29: Board paid notes 28 to 32, First National Bank, \$150,000.00 and interest on same from January 30, 1934, to March 31, 1935, inclusive, amounting to \$375.00.

April 3: Board signed leases for Stores No. 8, 301 E. Heron Street, Aberdeen; No. 11, 111 Legion Way, Olympia; No. 13, 1123 Commerce Street, Longview; No. 15, 241 Burwell Street, Bremerton, and No. 18, 605 Second Street, Mount Vernon.

Board decided that in cases of license applications for beer parlors within 300 feet of a military or naval reservation or a state armory it would consult the commanding officer of said reservation or the Adjutant General in charge of state armories prior to issuing licenses therefor. If objection is made to the issuance of such a license the Board would deny the application.

INSURANCE

After further study of the complex problems of insurance, the Board decided to establish its own insurance department on September 1st. Arrangements were made to cancel all outstanding insurance policies on a pro-rata basis and rewrite them with the same companies with commencement date October 1st to coincide with the commencement date of the Board's fiscal year. All policies were rewritten on an annual basis, except fire policies covering stock in agencies, stores, and state warehouses, and owners, landlords and tenants liability policies, which were rewritten on a three-year basis.

Merchandising

POLICY OF LIQUOR PURCHASES AND SALES

One Price List

The price list which was issued October 22, 1934, was continued in force up to and including September 30, 1935. This policy saved the expense caused by the confusion incident to changes in the list of items carried. During the year it was found necessary to make only one supplement to the price list. This supplement was issued covering liquor and wine produced in the State of Washington and not available at the time the price list was published. Union-made domestic whiskey and imported Australian wines were also included in the supplement because they filled a definite demand.

Limiting Number of Brands

In considering additions to the list the Board has had to be continually on guard to limit the number of brands. It will be readily understood that all brands cannot be carried. Every additional brand adds to the inventory, and sound business policy dictates the necessity of restricting the list to a reasonable variety of sound and approved brands and types.

Preparation for New Price List

During the last months of the period, the Board made an intensive study of sales of brands and types preparatory to issuing a new price list on October 1, 1935. This study disclosed a varying public acceptance; certain brands and types meet with great demand for a time and then recede. In preparing the new list, those types and brands no longer in public demand were reduced or eliminated. In other instances brands were discontinued because of withdrawal by the producer. Producers generally are now seeking to standardize their products and reduce the number of brands carried. In the past the same liquor has in many instances been sold under several different brand names. In making additions for the new list the Board was careful in every case to select such items as had met with general public acceptance elsewhere in the United States. However, to encourage state industry, this rule was not applied to Washington made products.

Preparatory to issuing the new price list on October 1, 1935, it was necessary to move out certain items that were to be discontinued. Small price concessions were made on these items during the last weeks of the period with the result that on the close of business September 30th, the Board had no slow-moving merchandise in stock and practically no stock of the items that were being discontinued.

Reduction in Prices

Very little more reduction can be expected in the lower priced distilled liquors. Unless the taxes now assessed on these products are reduced, it is very improbable that significant reductions in price can be made. However, a continuous and material improvement in the quality of domestic whiskey will be noted and the Board believes that this improvement in the quality of domestic whiskey is more outstanding than price reduction.

Mark-Up

During the period, the flat mark-up policy of 25% was continued on all items. The 10% sales tax imposed by the 1935 session of the Legislature, effective May 1, 1935, was assessed on the price appearing in the price list and collected in addition thereto on each purchase.

Illicit Liquor

The hoped for result in combatting illicit liquor very rapidly grew into a reality during the first period of the Board's operation. During this second period further progress has been made, with the result that "moonshine" and "bootleg" liquor is becoming less and less a factor. The illicit manufacturers cannot compete with the low prices in the state stores and are turning to other means of livelihood.

STORE OPERATIONS**New Stores**

It was not necessary to discontinue any store and convert it into an agency as all of the state stores have shown a substantial profit. A new store was opened at 2412 Greenwood, Seattle, for the reason that the volume of business in that community warranted the establishment of a regular store in place of the agency which was discontinued. A new store was also opened at Grand Coulee to serve the large number of people now working on that project. A list of the 48 stores in operation at the end of the period will be found in the financial section of this report.

Store Leases

The Board recommended to the January, 1935, legislature an extension in their powers of negotiating leases from one to five years. This recommendation was favorably acted upon and has been very beneficial in the making of new leases.

Due to an increased volume of business, especially of wine, which requires a relatively larger amount of space for the same dollar value than spirits, it was necessary in some cases to enlarge store quarters and further possible changes were pending for the same reason in other locations.

During the period the Board was able to secure quarters especially designed for it in two new buildings—the West Seattle Store and Vancouver Store—both secured under very favorable terms for a period of five years.

In spite of improved conditions and larger quarters the total monthly store rental January 1, 1935, was \$3,904.00 for the 46 stores and the total monthly store rental October 1, 1935, was \$4,187.00, or a total increase of only \$283.00 per month or an average increase of \$6.15 per month in the 46 stores. The building for the store at Greenwood, Seattle, was rented for \$60.00 per month and at Grand Coulee for \$100.00 per month.

Rental Store 46

The only store rental that appeared out of line at the end of the period was the rental for Store No. 46 in Seattle. Plans were made to secure a reduction in this rental or move the store to a smaller building in a less expensive location.

The Board considers this location to be an excellent one and the rental reasonable. The percentage of rental to business done is trivial. However, the non-competitive nature of this activity warrants a reduction.

Special Occasion Licenses

Prior to June 12, 1935, if organizations desired to sell beer at a picnic or special occasion, this was accomplished by a licensee applying for a change of location, which called for an inspection, a fee of five dollars, and considerable routine work in the office. It was then necessary that the license be transferred back to the original premises and another fee of five dollars paid for such transfer. This left the licensee without means of securing or selling beer on his own licensed premises during the interim. If this method was not used, a license for the entire year would be secured. This situation was remedied when the legislature provided special occasion licenses, to be granted to organizations only, upon the payment of a fee of five dollars per day. Seventy-four of these special occasion licenses were issued during this period and, although regulation proved difficult, on the whole, operation under these licenses has been quite satisfactory.

Brewers and Beer Wholesalers

On September 30th there were 290 beer wholesalers licensed to distribute beer and 17 breweries licensed to manufacture beer in the state. At the same time there were approximately 20 breweries shipping beer into the state and their shipments represented about 12 per cent of the total state sales.

While the N. R. A. code was effective the brewers and beer wholesalers were required to post uniform sales prices and to file all claims for defective beer or containers with the code authority. These requirements were designed to prevent assistance to retail accounts in the forms of special discounts or "free beer." On May 27th these requirements went out of effect and it became necessary for the Board to require that this information be filed with it in order to effectively enforce the provisions of the Liquor Act.

At the beginning of the period under review the Board concentrated on the supervision and regulation of retail outlets, with the result that supervision of brewers and beer wholesalers was relaxed and a few of them failed to comply with the Board's requirements. The worst violations were in the nature of financial assistance to retail outlets, particularly by means of credit extensions and rebates. A few brewers and beer wholesalers went so far as to permit retailers to incur large credits and then forced them to handle their products exclusively. Thus, it became evident that more supervision was necessary. Due to the technical and specialized nature of the industry, requiring trained investigators, the Board decided to set up a special division to investigate and supervise brewers and beer wholesalers. Two new inspectors, one a brewery auditor and the other a field investigator, were appointed and plans were made to organize the new division soon after October 1, 1935.

Clubs

The Board has found the regulation of clubs an irksome problem. It has held that strictness was essential in determining whether or not a club should be granted a license permitting members to keep liquor on the club premises. But, once it has been determined that the club is "bona fide," the Board has followed a policy of liberal regulation.

Accordingly, provision was made to grant licensed clubs, at the Board's discretion, permission to operate a "pool system" which would not permit

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any profit for the handling of liquor itself. Strict supervision and regulation of these "pool systems" was provided for so that they came within the requirements of the Liquor Act.

Wineries and Other Manufacturers

Prior to June 13, 1935, all wineries had to sell their products through the Board. This provision in the law worked a hardship on both the small wineries and on the Board, because the large scale merchandising operation of the Board could not economically handle the small output of numerous items produced by the wineries. Accordingly, the legislature made provision for "domestic wineries" (wineries whose products are made exclusively and entirely from Washington fruits and fruit products) to sell wine directly to retail licensees and to permit such wineries to appoint beer wholesalers as their agents subject to the approval of the Board. A tax of ten cents per gallon was imposed and collected by means of stamps. "Farmers' Wineries" licensed prior to June 13th qualified under this rule.

The Board's experience with this procedure indicates that the wine industry has developed more rapidly in the state and that the operators are well satisfied with the system. Supervision has consisted primarily of inspections in connection with the issuance of licenses, but more complete supervision will probably be necessary in the future.

On September 30, 1935, there were thirteen domestic wineries, seven commercial wineries, one rectifier and one distillery operating in the State of Washington.

Return of Unearned License Fees

In accordance with a ruling of the Attorney General the Board prepared to return the unused portion of all license fees issued prior to June 13, 1935. All outstanding licenses as of September 30th were checked and Proof of Claim forms were provided. However, persons paying license fees after June 13th were aware of the fact that the licenses would expire on September 30th and it was ruled that it was unnecessary for the Board to refund any portion of such fees.

Detailed Information

Section III of this report contains detailed statements showing licenses issued by types and by counties, license fees, and number and types of licensed premises.

INSPECTION AND INVESTIGATION DIVISION

Reorganization

About June 1, 1935, the Board organized a separate division, with the Chief Inspector and the Chief Investigator reporting to the chief of the division, who in turn reported directly to the Board. This arrangement proved to be more effective. The Chief Inspector and the Chief Investigator were released from a large amount of office routine, enabling them to spend more time in the field. This resulted in better supervision and cooperation. The inspection unit confined its efforts to licensed premises while the investigation and enforcement unit confined its efforts to unlicensed premises operating in violation of the law.